

Message Text

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ACTION EB-11

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INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15

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OPIC-12 RSR-01 /127 W

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R 091249Z AUG 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 8273

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY LIMA

AMCONSUL GUAYAQUIL

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E.O. 11652: N/A

TAGS: ENRG, EC

SUBJECT: TEXACO-GULF AND SUNOCO SIGN NEW CONTRACTS

REF: QUITO 4008

SUMMARY: THE TEXACO-GULF CONSORTIUM AND ECUADOR SUN OIL COMPANY SIGNED NEW CONCESSION CONTRACTS WITH THE GOE AUGUST 6. THE CONTRACTS INCORPORATE THE TAX AND OTHER OBLIGATIONS IMPOSED BY THE HYDROCARBONS LAW. THE PRINCIPAL NEW COMMITMENTS UNDERTAKEN BY THE COMPANIES ARE TO PERMIT THE STATE PETROLEUM COMPANY (CEPE) TO PURCHASE UP TO 25 PERCENT PARTICIPATION AFTER JUNE 6, 1977, AND TO MAKE AVAILABLE, AT FULL VALUE, SUFFICIENT CRUDE TO SUPPLY AN EXPORT-ORIENTED REFINERY OF ABOUT 50,000 BPD, PROJECTED FOR CONSTRUCTION AT ESMERALDAS. A TEXACO-GULF SPOKESMAN TOLD EMBOFF THAT THE COMPANY IS SATISFIED WITH THE CONTRACT TERMS. END SUMMARY.

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1. TEXACO-GULF AND ECUADOR SUN OIL COMPANY SIGNED NEW

CONCESSION CONTRACTS WITH THE GOE THE EVENING OF AUGUST 6, THEREBY MEETING THE LEGAL DEADLINE. WE UNDERSTAND THAT ANGLO IS ALSO NEARING AGREEMENT WITH THE GOE ON A NEW CONCESSION CONTRACT. NEGOTIATIONS WITH CAYMAN AND OKC, REQUIRED TO SIGN ASSOCIATION CONTRACTS, ARE HUNG UP ON THE TOUGHER TERMS OF THIS TYPE OF CONTRACT. THE MINISTRY OF NATURAL RESOURCES IS EXPECTED TO EXTEND THE DEADLINE BEYOND AUGUST 6 TO PERMIT NEGOTIATIONS WITH THESE COMPANIES TO CONTINUE.

2. THE NEW TEXACO-GULF CONTRACT PROVIDES FOR AN EXPLORATION PERIOD OF FIVE YEARS, ALREADY COMPLETED, AND AN EXPLOITATION PERIOD OF TWENTY YEARS FROM JUNE 6, 1972 TO JUNE 6, 1992. EARLIER CONTRACTS WITH TEXACO-GULF AND OTHERS HAD GRANTED A PERIOD OF FORTY YEARS FOR EXPLOITATION. THE CONTRACT PERMITS THE STATE PETROLEUM COMPANY, CEPE, TO PURCHASE A SHARE OF UP TO 25 PERCENT OF THE CONSORTIUM AFTER JUNE 6, 1977. CEPE WOULD PAY AN AMOUNT TO BE NEGOTIATED, AND IT WOULD ASSUME THE CORRESPONDING SHARE OF SUBSEQUENT INVESTMENT, TAX, AND ROYALTY OBLIGATIONS. THE TIMING OF PURCHASES WOULD BE AT CEPE'S OPTION. AMONG OTHER PROVISIONS, ALL THE TAX AND OTHER OBLIGATIONS OF THE HYDROCARBONS LAW ARE INCORPORATED IN THE CONTRACT. TEXACO-GULF ASSUMED ADDITIONAL OBLIGATIONS TO CONSTRUCT ROADS AND AIRSTRIPS IN THE ORIENTE. THERE WAS NO MODIFICATION OF EXISTING LAW REGARDING RELINQUISHMENT OF ACREAGE OR THE PAYMENT OF SURFACE RENTALS; TEXACO-GULF IS UNDER NO LEGAL OBLIGATION TO RELINQUISH FURTHER ACREAGE.

3. THE MAIN POINT OF CONTENTION IN THE TEXACO-GULF NEGOTIATIONS WAS GOE ACCESS TO PRODUCTION FOR REFINING FOR EXTERNAL MARKETS. TEXACO-GULF AGREED THAT, IF THE DOMESTIC MARKET REQUIREMENT AND THE GOES 16 PERCENT ROYALTY SHARE ARE LESS THAN 26 PERCENT OF TOTAL PRODUCTION, TEXACO-GULF WILL SELL UP TO THAT AMOUNT TO THE GOE FOR REFINING FOR EXPORT. IN ADDITION, CEPE ACQUIRES A SHARE OF CRUDE THROUGH PARTICIPATION IN THE COMPANY. THUS, IF CEPE PURCHASES A FULL 25 PERCENT INTEREST, THE GOE COULD HAVE ACCESS TO 51 PERCENT OF TEXACO-GULF'S CRUDE PRODUCTION BY 1977. (SINCE BY LAW, TEXACO-GULF MUST MEET THE REQUIREMENTS LIMITED OFFICIAL USE

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OF THE DOMESTIC MARKET, TEXACO-GULF COULD CONCEIVABLY BE REQUIRED TO PROVIDE MORE THAN 51 PERCENT AT SOME DISTANT TIME.) THE PRICE OF CRUDE SOLD TO THE GOE FOR REFINING FOR EXPORT WILL BE THE HIGHER OF THE REFERENCE PRICE OR THE MARKET PRICE, I.E. THE PRICE AT WHICH TEXACO-GULF EXPORTS TO THIRD PARTIES. EVEN SO, LIMITING GOE ACCESS WAS A KEY ISSUE, SINCE TEXACO AND GULF PREFER TO HAVE THE CRUDE AVAILABLE FOR THEIR OWN RE-

FINERIES.

4. THE 26 PERCENT LIMIT WAS NEGOTIATED TO PROVIDE CRUDE SUPPLIES FOR A 50-60,000 BARREL PER DAY REFINERY AT A PRESUMED CRUDE PRODUCTION LEVEL OF CLOSE TO 400,000 BARRELS PER DAY. AT THE PRESENT RATE OF PRODUCTION, LESS THAN 250,000 BARRELS PER DAY, THE REQUIREMENTS FOR THE DOMESTIC MARKET AND THE 16 PERCENT ROYALTY EXCEED 26 PERCENT OF PRODUCTION. BY THE TIME THE ESMERALDAS REFINERY IS COMPLETED, PROJECTED FOR 1976, TEXACO-GULF IS EXPECTED TO HAVE INCREASED THE PIPELINE CAPACITY TO 400,000 BARRELS PER DAY AND RAISED PRODUCTIVE CAPACITY OF ITS FIELDS TO ABOUT THAT LEVEL. INCLUDING THE TWO EXISTING REFINERIES, TOTAL REFINING CAPACITY AT THAT TIME WOULD BE ABOUT 90,000 BARRELS PER DAY; THUS, 26 PERCENT OF THE ESTIMATED 400,000 BARRELS PER DAY WOULD COVER REFINERY DEMAND WITH A BIT TO SPARE, AND WITHOUT THE NECESSITY OF CEPE PARTICIPATION IN THE COMPANY.

5. WITH THE SIGNING OF ITS NEW CONTRACT, SUNOCO CHANGES THE NAME OF ITS ECUADOREAN SUBSIDIARY FROM GRACE OIL COMPANY TO ECUADOR SUN OIL COMPANY. THE NEW CONTRACT IS ESSENTIALLY THE SAME AS THAT OF TEXACO-GULF. THE GOE REFUSED TO MAKE ANY CONCESSIONS IN THE REALM OF TAX AND OTHER OBLIGATIONS IMPOSED BY THE HYDROCARBONS LAW, DESPITE SUNOCO'S PROTESTS THAT DEVELOPMENT OF A SMALL FIELD WOULD BE UNECONOMIC, EVEN AT TODAY'S PRICES. THE GOE DID CONCEDE A 4 1/2 MONTH EXTENSION OF THE EXPLORATION STAGE UNTIL DECEMBER 31, 1973, FOLLOWED BY A TWENTY YEAR EXPLOITATION STAGE. THE IMPORTANCE OF THIS EXTENSION IS THAT SUNOCO MUST PAY A FEE OF \$6 PER HECTARE, OR ABOUT \$1 MILLION, TO ENTER THE EXPLOITATION STAGE. THUS SUNOCO HAS THE ADDITIONAL TIME TO REACH A DECISION ON WHETHER TO RETAIN OR RELINQUISH THE CONCESSION BEFORE LIMITED OFFICIAL USE

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MAKING THAT PAYMENT.
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